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Southern Union Company) D.T.E. 01-32

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BRIEF OF SOUTHERN UNION COMPANY

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TABLE OF CONTENTS

I. INTRODUCTION *

II. PROCEDURAL HISTORY *

III. DESCRIPTION OF THE PROPOSED FINANCING *

A. Issuance of the Long-Term Debt *

B. Capital Structure of the Company *

IV. STANDARD OF REVIEW *

V. THE COMPANY'S PROPOSAL MEETS THE DEPARTMENT'S STANDARD OF REVIEW UNDER G.L. c. 164, §§ 14, 15 and 15A. *

A. Issuance of the Long-Term Debt *

Untitled

B. Exemption from G.L. c. 164, §§ 15 and 15A *

1. The Company Has Demonstrated That it Is in the Public Interest To Grant an Exemption From the Requirements of Section 15. *

2. The Company Has Demonstrated That it Is in the Public Interest To Grant an Exemption From the Requirements of Section 15A. *

VI. RESPONSE TO DEPARTMENT'S BRIEFING QUESTION *

VII. CONCLUSION *

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Southern Union Company) D.T.E. 01-32

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BRIEF OF SOUTHERN UNION COMPANY

I. INTRODUCTION

On February 16, 2001, Southern Union Company ("Southern Union" or the "Company") filed a petition (the "Petition") with the Department of Telecommunications and Energy (the "Department") for approval and authorization, pursuant to G.L. c. 164, § 14, as amended, to issue debt securities (the "Long-Term Debt") in an amount not to exceed \$400 million in principal. In addition, Southern Union requested that the Department find it to be in the public interest to exempt Southern Union from the competitive bid requirements of G.L. c. 164, § 15 and the par-value requirement of G.L. c. 164, § 15A.

As discussed herein, the record in this proceeding shows that the Company has met the Department's standard under G.L. c. 164, § 14 for the approval and authorization of the Long-Term Debt. The record also demonstrates that exemptions from the requirements of G.L. c. 164, §§ 15 and 15A would be in the public interest. Accordingly, the Department should approve the Company's request to issue up to \$400 million in Long-Term Debt and exempt the Company from the requirements of G.L. c. 164, § 15 and 15A in relation to that issuance.

II. PROCEDURAL HISTORY

Subsequent to the filing of the Companies' proposal, the Division of Energy Resources ("DOER") intervened in the proceeding. The Department conducted a public and evidentiary hearing at its offices on March 22, 2001. At the evidentiary hearing, the Company presented one witness: Cheryl F. Yager, Assistant Treasurer, who testified in support of the Company's request for authorization to issue the Long-Term Debt.

The evidentiary record consists of approximately 20 documentary exhibits, including the initial filing and the Company's responses to information and record requests (Tr. at 30), as well as the sworn testimony presented at hearing. The hearing

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officer established a briefing schedule requiring the filing of the Company's brief, including its response to one briefing question posed by the Department, on April 4, 2001.

III. DESCRIPTION OF THE PROPOSED FINANCING

A. Issuance of the Long-Term Debt

In this filing, Southern Union seeks authorization for the issuance and sale of long-term debt securities of up to \$400 million in the form of unsecured Senior Notes at a fixed rate of interest (Exh. SU-1, at 3). The Company anticipates that the debt issuance will be a single issue of Senior Notes with a single maturity date that is at least seven years, but no greater than 30 years, from the date of issuance (id.). The Long-Term Debt will be issued under the same indenture as the Company's currently outstanding 7.6 percent and 8.25 percent Senior Notes (id.). The Company also anticipates selling its Senior Notes in the public market (id.). The Company does not currently anticipate including a call feature (id.; Exhs. SU-16, SU-17, SU-18). The Company may reconsider these terms, or include other terms, should market circumstances warrant at the time of the issuance (Exh. SU-1, at 3).

Southern Union's outstanding Senior Notes are currently rated BBB+ by Standard and Poor's Global Utility Ratings Service and Fitch IBCA, Duff & Phelps, and Baa2 by Moody's Investor Services (id. at 4). As of January 31, 2001, market indications are that the Company could issue seven-year notes at a coupon rate of 7.15 percent and 30-year notes at a coupon rate of 8.00 percent (id.). Because market conditions have been volatile over the last several years, with relatively large swings in long-term interest rates occurring in short periods of time, the Company is requesting that the Department authorize the Long-Term Debt at a maximum interest rate of 9.00 percent (Exh. SU-1, at 4).

The proceeds from the issuance of the Long-Term Debt will be used to refinance outstanding short-term debt, which was incurred by the Company to purchase the utility property, plant and equipment of several natural gas distribution companies, including Providence Gas Company (Rhode Island), Valley Gas Company, Fall River and North Attleboro (id.; Exh. SU-5). In addition, the Company's short-term debt resources serve to finance investments in its utility operations, including the expansion and replacement of underground distribution facilities and to fund safety-related expenditures (Exh. SU-5).

As of December 31, 2000, the Company has outstanding short-term debt (less than one year) on its balance sheet of approximately \$704 million, which consists of: (a) a 364-day term loan in the amount of \$529 million; and (b) other short-term credit facilities, which total approximately \$175 million, that are used to finance the working-capital requirements of the Company (Exh. SU-1, at 4-5; Tr. at 9, 15-17). The proceeds of the financing will be used to pay down a portion of the outstanding balance of \$529 million of the Company's 364-day term loan (Exh. SU-1, at 5-6; Tr. at 16-17). The remaining balance of the 364-day term loan must be paid off by the Company or converted to long-term financing upon the expiration of the 364-day term loan on August 26, 2002 (Exh. SU-1, at 5; Exh. SU-7).

B. Capital Structure of the Company

As of December 31, 2000, the Company's utility plant in service was \$2,085,964,000, with accumulated depreciation of \$722,446,000, resulting in net utility plant of \$1,363,518,000, or \$1,467,494,000, including gas inventories held by regulated utilities in the amount of \$103,976,000 (Exh. SU-2). As of December 31, 2000, the Company reported a total capitalization of \$1,213,722,000 (excluding retained earnings of \$10,228,000), consisting of long-term debt and capital-lease obligations of \$851,757,000 (excluding the outstanding balance of the 364-day term loan of \$529 million and including the proposed \$400 million issuance of the Long-Term Debt), common stock of \$308,938,000, preferred stock of \$53,027,000 and a reduction to capitalization of \$848,648,000 (Exh. SU-1, at 9-13; Exh. SU-2; Exh. SU-4). Therefore, Southern Union's net-utility plant will be in excess of total

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capitalization by \$253,772,000 after the issuance of the Long-Term Debt (Exh. SU-2).

As set forth in Exhibit SU-4, the foregoing capital structure incorporates four primary adjustments to its consolidated balance sheet for the purpose of comparing the post-issuance, net-utility plant to total capitalization. These adjustments are as follows: (1) a net reduction in the Long-Term Debt and Capital Lease Obligation in the amount of \$129,000,000, reflecting the outstanding balance of the 364-day term loan following the \$400 million long-term debt issuance (Exh. SU-1, at 9; Exh. SU-7, Tr. at 9-11); (2) a reduction to Property, Plant and Equipment (plant in service) of \$51,772,000 reflecting the removal of property, plant and equipment relating to unregulated business operations (Exh. SU-1, at 9-10); (3) a reduction to Property, Plant and Equipment (plant in service) of \$733,893,000 reflecting the removal of Additional Purchase Cost Assigned to Utility Plant (net of amortization) (Exh. SU-1, at 11); and (4) a reduction to the Company's overall capitalization in the amount of \$848,648,000 associated with the plant in service of unregulated business operations (\$51,772,000), the Additional Purchase Cost Assigned to Utility Plant (\$733,893,000) and Accumulated Other Comprehensive Income (\$62,983,000) (Exh. SU-1, at 9-13; Exh. SU-4).

IV. STANDARD OF REVIEW

In order for the Department to approve the issuance of stock, bonds, coupon notes or other types of long-term indebtedness by an electric or gas company, the Department must determine that the proposed issuance meets two tests. First, the Department must assess whether the proposed issuance is reasonably necessary to accomplish some legitimate purpose in meeting a company's service obligations, pursuant to G.L. c. 164, § 14. *Boston Edison Company, D.T.E. 00-62, at 2 (2000)*; *Fitchburg Gas & Electric Light Company v. Department of Public Utilities, 395 Mass. 836, 842 (1985) ("Fitchburg II")*, citing *Fitchburg Gas & Electric Light Company v. Department of Public Utilities, 394 Mass. 671, 678 (1985) ("Fitchburg I")*. Second, the Department must determine whether the Company has met the net plant test. *Colonial Gas Company, D.P.U. 84-96 (1984)*.

The Supreme Judicial Court has found that, for the purposes of G.L. c. 164, § 14, "reasonably necessary" means "reasonably necessary for the accomplishment of some purpose having to do with the obligations of the company to the public and its ability to carry out those obligations with the greatest possible efficiency." *Fitchburg II* at 836, citing *Lowell Gas Light Company v. Department of Public Utilities, 319 Mass. 46, 52 (1946)*. In cases where no issue exists about the reasonableness of management decisions regarding the requested financing, the Department limits its § 14 review to the facial reasonableness of the purpose to which the proceeds of the proposed issuance will be put. *Canal Electric Company, et al., D.P.U. 84-152, at 20 (1984)*; see, e.g., *Colonial Gas Company, D.P.U. 90-50, at 6 (1990)*. Regarding the net plant test, a company is required to present evidence that its net utility plant (original cost of capitalizable plant, less accumulated depreciation) equals or exceeds its total capitalization (the sum of its long-term debt and its preferred and common stock outstanding) and will continue to do so following the proposed issuance. *Colonial Gas Company, D.P.U. 84-96, at 5 (1984)*.

Pursuant to G.L. c. 164, § 15, an electric or gas company offering long-term bonds or notes in excess of \$1,000,000 in face amount payable at periods of more than five years after the date thereof must invite purchase proposals through newspaper advertisements. The Department may grant an exemption from this advertising requirement if the Department finds that an exemption is in the public interest. G.L. c. 164, § 15. The Department has found it in the public interest to grant an exemption from the advertising requirement where there has been a measure of competition in private placement. See, e.g., *Western Massachusetts Electric Company, D.P.U. 88-32, at 5 (1988)*; *Eastern Edison Company, D.P.U. 88-127, at 11-12 (1988)*; *The Berkshire Gas Company, D.P.U. 89-12, at 11 (1989)*. The Department has also found that it is in the public interest to grant a company an exemption from the advertising requirement when a measure of flexibility is necessary in order for a company to enter the bond market in a timely manner. See, e.g., *Western*

Massachusetts Electric Company, D.P.U. 88-32, at 5 (1988).

Pursuant to G.L. c. 164, § 15A, an electric or gas company offering long-term bonds, debentures, notes, or other evidences of indebtedness may not issue said securities at less than par value. The Department may grant an exemption from this par value requirement if the Department finds that an exemption is in the public interest. G.L. c. 164, § 15A. The Department has found that it is in the public interest to grant an exemption from the par value requirement where market conditions make it difficult for a company to price a particular issue at par value and simultaneously offer an acceptable coupon rate to prospective buyers. Boston Edison Company, D.T.E. 00-62, at 4; Bay State Gas Company, D.P.U. 91-25, at 10 (1991). The Department has also found that it is in the public interest to authorize the issuance of securities below par value where this technique offers a company enhanced flexibility in entering the market quickly to take advantage of prevailing interest rates, particularly if this benefits the company's customers in the form of lower interest rates and a lower cost of capital. Id.; see also Boston Gas Company, D.P.U. 92-127, at 8 (1992); Boston Edison Company, D.P.U. 91-47, at 12-13 (1991). If the Department authorizes a company to issue securities at less than par value, the Department may establish the method by which the company is required to amortize any discount. G.L. c. 164, § 15A; see, e.g., Boston Gas Company, D.P.U. 92-127, at 8 (1992); Boston Edison Company, D.P.U. 91-47, at 15 (1991).

V. THE COMPANY'S PROPOSAL MEETS THE DEPARTMENT'S STANDARD OF REVIEW UNDER G.L. c. 164, §§ 14, 15 and 15A.

A. Issuance of the Long-Term Debt

As set forth above, the Company has the burden in this proceeding to demonstrate that the issuance of the Long-Term Debt: (1) is reasonably necessary to accomplish some legitimate purpose in meeting a company's service obligations, pursuant to G.L. c. 164, § 14; and (2) that its net utility plant (original cost of capitalizable plant, less accumulated depreciation) equals or exceeds its total capitalization (the sum of its long-term debt and its preferred and common stock outstanding less retained earnings) and will continue to do so following the proposed issuance, pursuant to G.L. c. 164, § 16. See New England Power Company, D.T.E. 00-53, at 10; Boston Edison Company, D.T.E. 00-62, at 9-10. In this proceeding, the Company has satisfied this burden, and therefore, the Department should authorize and approve the Company's request to issue up to \$400 million in long-term securities.

First, the record shows that the proposed issuance of up to \$400 million principal amount of long-term debt is reasonably necessary to retire short-term debt, which was used to fund expenditures for capitalizable additions, as well as the acquisition, extension and improvement of utility plant and property, which is a legitimate purpose in meeting a company's utility-service obligations (Exh. SU-1, at 6; Exh. SU-5).

Second, the Company's adjustments to its consolidated balance sheet are consistent with Department precedent, and as a result, the record shows that the Company's net-utility plant in excess of total capitalization following the Long-Term Debt issuance is approximately \$253,772,000. In calculating the Department's net-plant test, the Company incorporated a number of adjustments, which are supported by Department precedent. For example, the Company reduced the total amount of Property, Plant and Equipment reported in its consolidated balance sheet by \$51,772,000 to reflect the removal of property, plant and equipment relating to unregulated business operations (Exh. SU-1, at 9-10). See Colonial Gas Company, D.P.U. 84-96, at 5 (1984) (net-utility plant must equal or exceed total capitalization). Unregulated property, plant and equipment removed from the calculation of net-utility plant in service is supported by a combination of debt and equity, but having been incorporated over time into the Company's overall operations, cannot be directly attributed to a particular source of capital. Therefore, because it was necessary for the Company to make a reduction to its overall capitalization to correspond with the removal of unregulated plant from the net-utility plant-in-service calculation, the Company reduced debt and equity (both common and preferred) in the same ratio as

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those categories of capital have to the Company's total capitalization).

Similarly, consistent with Department precedent, the Company excluded "additional purchase costs" totaling \$733,893,000 associated with its acquisitions of local distribution operations from its calculation of net-utility plant in service (Exh. SU-1, at 11; Exh. SU-4). See Colonial Gas Company, D.P.U. 84-96, at 5; New England Power Company, D.T.E. 00-53, at 8-9. The Company's "additional purchase costs" are supported by a combination of debt and equity, and having been incorporated over time into the Company's overall operations, cannot be directly attributed to a particular source of capital. Therefore, the Company reduced debt and equity (both common and preferred) in the same ratio as those categories of capital have to the Company's total capitalization.

Lastly, in calculating the Department's net-plant test in Exhibit SU-2, the Company reduced its Long-Term Debt and Capital Lease Obligation by \$129 million to reflect the fact that the outstanding balance of the 364-day term loan following the issuance of up to \$400 million in long-term debt is, by statutory standards, a short-term obligation, and therefore must be excluded from the calculation. The Department has consistently found that "long-term" refers to periods of more than one year after the date of the issuance. See, e.g., Boston Edison Company, D.T.E. 00-62, at 2, fn.2. The record shows that the Company will reissue its 364-day term loan for a 364-day period only in relation to the balance remaining on the loan following the long-term debt issuance (Exh. SU-5; Tr. at 17). The record also shows that, under the term loan, the Company does not have the ability to reissue beyond the expiration date of August 26, 2002, nor can the Company "re-borrow" any portion of the \$400 million that has been converted to long-term securities (Tr. at 11, 17). Therefore, as of August 26, 2002, the Company will be obligated either to pay off the balance or to convert the remaining balance of the term loan to long-term securities (with the Department's approval), or to eliminate that obligation through some combination of the two (Exh. SU-7). Accordingly, the Company's exclusion of the remaining balance (currently estimated to be \$129 million) from the long-term debt calculation is consistent with Department precedent.

Exemption from G.L. c. 164, §§ 15 and 15A

1. The Company Has Demonstrated That it Is in the Public Interest To Grant an Exemption From the Requirements of Section 15.

Under G.L. c. 164, § 15, a gas company that is issuing or offering for sale bonds, notes or other evidences of indebtedness is required to invite purchase proposals through newspaper advertisements. G.L. c. 164, § 15 provides the Department with the discretion to grant an exemption from these requirements if such an exemption would be in the public interest. The Department has found that it is in the public interest to grant a company an exemption from the advertising requirement when: (1) there has been a measure of competition in the private placement process; and (2) a measure of flexibility is necessary in order for a company to enter the bond market in a timely manner. The Berkshire Gas Company, D.T.E. 98-129, at 7 (1999); see Boston Edison Company, D.T.E. 00-62, at 11.

In this case, the record shows that the Company plans to sell its securities in the public market through negotiation with underwriters, negotiation directly with investors or with one or more agents for principal resale to investors, or a combination thereof (Exh. SU-1, at 3-4). In going to the public market, the Company plans to use the services of one or more investment bankers to underwrite the issuance (Exh. SU-11). The investment bankers that the Company engages will be responsible for helping the Company to develop preliminary informational packages, creating a formal presentation regarding the offering, and for conducting video and telephone conferences or personal presentations to groups of institutional investors in order to generate interest for the Company's offering (id.).

The record also shows that the Company's ability and readiness to respond quickly to market changes is important for the effective utilization of both negotiated

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offerings and sales through agents (Exh. SU-1, at 13). Moreover, the record shows that a key factor in obtaining the best possible price on the market is the level of demand that is generated for the Company's securities in the marketplace and that the Company's ability to generate a high level of demand is a function of its ability to offer the issue to the market under favorable conditions (Exh. SU-6). For example, it would be beneficial for the Company to make its offering when there are relatively few long-term investment alternatives being offered to investors or when interest rates are relatively low (id; Exh. SU-11). In addition, long-term financial markets rely on expectations about future economic conditions and, as a result, it will be important to time the issuance to coincide with long-term economic prospects that engender interest in the purchase of long-term securities, such as the ones being offered by the Company (Exh. SU-6). Therefore, because the Company's ability to obtain the best possible price in the marketplace for its issuance is directly linked to its ability to go to market with the issuance at a favorable time, an exemption from the advertising requirements in G.L. c. 164, § 15 is in the public interest.

2. The Company Has Demonstrated That it Is in the Public Interest To Grant an Exemption From the Requirements of Section 15A.

Under G.L. c. 164, § 15A, a gas company is prohibited from issuing or selling bonds, notes or other evidences of indebtedness at less than par value of the face value thereof, unless the Department finds that a sale or issuance at less than par value is in the public interest. The Department has found it to be in the public interest to grant an exemption from the par-value requirement where: (1) market conditions make it difficult for the company to price a particular issue at par value and simultaneously offer an acceptable coupon rate to prospective buyers; and (2) a sale at less than par value offers a company enhanced flexibility in entering the market quickly to take advantage of prevailing interest rates. Boston Edison Company, D.T.E. 98-118, at 43 (1999); Colonial Gas Company, D.P.U./D.T.E. 97-83, at 11 (1997).

In this case, the record shows that publicly issued debt is commonly issued at a discount or premium to "fine tune" the price structure of an instrument for the investor community (Exh. SU-12; Tr. at 22-23). The record also shows that the market expects such discounts to be offered and does not function as efficiently without this pricing component (Exh. SU-12). The Company plans on using a discount: (1) to be flexible and responsive to the needs and expectations of the market; (2) to offer an acceptable rate to the investor; and (3) to allow the market to operate as efficiently as possible (id.). The record indicates that the Company anticipates a discount rate in the range of zero to two percent, but no more than ten percent (Tr. at 23-24). The record also indicates that the discounts would be amortized over the life of the new issuance on a straight-line basis, consistent with the regulations of the Federal Energy Regulatory Commission (Tr. at 25-26).

The Department has recognized that the ability to issue debt securities below par value offers a company increased flexibility in placing its issuances with prospective investors and that this flexibility translates into an ability to take advantage of favorable market conditions. Boston Edison Company, D.T.E. 00-62, at 8, 12. Therefore, based on the record in this proceeding, an exemption from the advertising requirements in G.L. c. 164, § 15 is in the public interest.

VI. RESPONSE TO DEPARTMENT'S BRIEFING QUESTION

At the hearing, the Department posed the following question for briefing by the Company:

What is the Department's authority to approve this petition in light of the fact that the Company's total plant investment in Massachusetts is less than the amount of the financing sought?

Tr. 28-29.

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In reviewing the proposed mergers between Southern Union and Fall River (Southern Union/Fall River Acquisition, D.T.E. 00-25 (2000)) and Southern Union and North Attleboro (Southern Union/North Attleboro Acquisition, D.T.E. 00-26 (2000)), the Department considered, on a general basis, the jurisdictional issues that arise in relation to Southern Union's operations within the Commonwealth. The Department noted that, in enacting the Electric Restructuring Act of 1997 (the "Act"), the Legislature revised the definition of a "gas company" under G.L. c. 164, § 1, to include non-Massachusetts corporations operating gas utilities within the Commonwealth. D.T.E. 00-25, at 27; D.T.E. 00-26, at 26. Thus, as revised by the Act, any "corporation organized for the purpose of making and selling, or distributing and selling, gas within the Commonwealth" is subject to the Department's jurisdiction under G.L. c. 164, § 1. Accordingly, the Department has found that it has the same jurisdiction over foreign utilities operating in Massachusetts as is currently applied to Massachusetts-chartered corporations. *Id.*

In reviewing the mergers under G.L. c. 164, § 96, the Department found the mergers of Southern Union with Fall River and North Attleboro to be in the public interest because Fall River and North Attleboro would operate as divisions of Southern Union and "remain fully subject to the Department's regulatory jurisdiction under G.L. c. 164. . . ." *Id.* It was necessary for the Department to make this determination in the merger cases, because Southern Union is incorporated in Delaware (rather than Massachusetts) and does not operate as a public utility holding company, as do many other utilities currently operating in the Commonwealth. Instead, Southern Union is a single utility that operates in multiple jurisdictions, and therefore, the Company as a whole is subject to the jurisdiction of the Department. D.T.E. 00-25, at 25; D.T.E. 00-26, at 24. Under G.L. c. 164, § 14, a gas company subject to the Department's jurisdiction is prohibited from issuing long-term debt without the Department's approval. As a result, Southern Union must obtain the Department's approval of its Long-Term Debt Issuance in order for that issuance to be valid.

As the record in this case demonstrates, the capital structure of Southern Union supports its overall operations, and therefore, no portion of the Long-Term Debt issuance can be specifically attributed to the Massachusetts operations (Exh. SU-1, at 9-11). Moreover, in approving long-term financings, the Department calculates that net-plant test using a company's total utility plant in service (less accumulated depreciation) as recorded on the company's books at a reasonable point prior to the financings. This case is no different. Southern Union has calculated the Department's net-plant test in accordance with Department precedent using its financial records as reported to the Securities and Exchange Commission in its Form 10K, for the year ending December 31, 2001 (Exhs. SU-3, SU-4).

It is important to note that, since Southern Union operates as a regulated entity in five separate jurisdictions, uniquely demanding regulatory requirements in one particular state may make it difficult for Southern Union to conduct its overall operations in an efficient manner, especially with respect to the financial affairs of the Company. In the majority of the states in which Southern Union operates, there are statutory provisions that allow for "lighter" regulation of foreign utilities particularly on financial matters. The Fall River and North Attleboro divisions of Southern Union service, in total, roughly 50,000 customers, which represents only 3.4 percent of the Company's overall customer base. Accordingly, as the need arises and as the Company is required to come to the Department for approval of various financial activities under chapter 164, the Company plans on proposing a streamlined process for Department review for those filings, to the extent that the statutory provision governing the filing provides the Department with discretion to modify its review and approval process. Streamlined review will allow the Company to maintain sufficient flexibility to continue to conduct its financial operations on a timely and efficient basis, while providing for appropriate oversight by the Department.

VII. CONCLUSION

The record in this proceeding shows: (1) that the Company's Long-term Debt issuance is reasonably necessary to accomplish a legitimate purpose in meeting a company's

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service obligations, pursuant to G.L. c. 164, § 14; and (2) that the Company's net-utility plant (original cost of capitalizable plant, less accumulated depreciation) equals or exceeds its total capitalization (the sum of its long-term debt and its preferred and common stock outstanding less retained earnings) and will continue to do so following the proposed issuance, pursuant to G.L. c. 164, § 16. Moreover, the Company has demonstrated that an exemption from the requirements of G.L. c. 164, §§ 15 and 15A would be in the public interest. Therefore, for the reasons stated above, the Department should:

VOTE: That the issuance and sale by Southern Union Company, from time to time, of not in excess of \$400 million aggregate principal amount of Long-Term Debt, is reasonably necessary for the purposes for which such issuance and sale has been authorized, pursuant to G.L. c. 164, § 14.

VOTE: That the issuance of the Long-Term Debt is in accordance with G.L. c. 164, § 16 in that the fair structural value of the Company's property, plant and equipment and the fair value of the gas inventories held by the Company, will exceed its outstanding stock and long-term debt.

VOTE: That it is in the public interest that the issuance and sale of said Long-Term Debt be exempt from the requirements of G.L. c. 164, §§ 15 and 15A.

ORDER: That the Department approves and authorizes the issuance and sale by Southern Union Company, in conformity with all the provisions of law relating thereto, of up to \$400 million principal amount of Long-Term Debt securities.

ORDER: That Southern Union Company be exempt from all of the requirements of G.L. c. 164, §§ 15 and 15 A, as amended, with respect to the issuance and sale of said Long-Term Debt securities; provided that if any of said Long-term Debt are issued and sold at less than par value or face amount, the discount shall be amortized over the stated term of the Long-Term Debt.

Respectfully submitted,

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